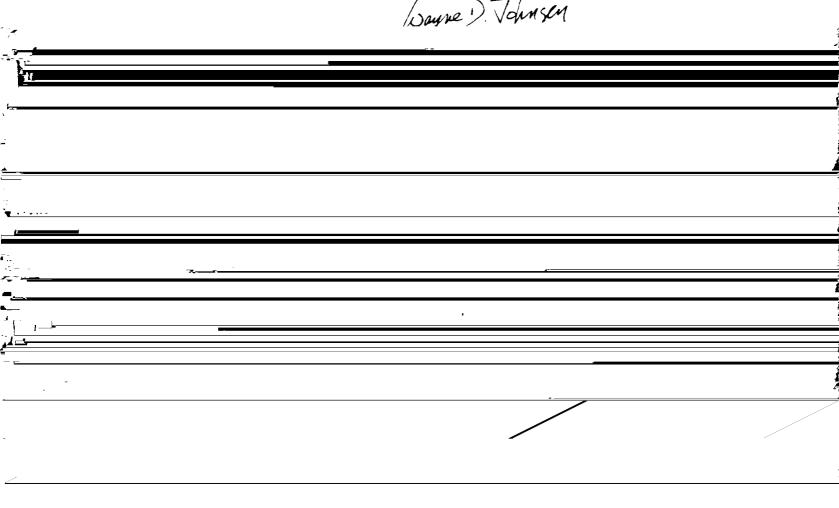
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Ms. Donna R. Searcy March 23, 1993 Page 2

Kindly direct any questions regarding this matter to the undersigned.

Respectfully submitted,



CEIVED

## THE LEARNING CHANNEL AFFILIATE RATE CARD

MAR 2 3 1993

OFFICE OF THE SECRETARY

RATE/SUB/MONTH CHARGES					OTTION OF IT
FOR SUBSCRIBERS:	1992	1993	1994	1995	1996
1-199,000	\$0.070	\$0.085	20.095	\$0.110	\$0.125
200,000 - 599,000	\$0.065	080.02	0.002	\$0.105	\$0.120
600,000 — 999,000	\$0.060	\$0.075	\$0.085	50.100	50.115
1,000,000-And Above	\$0.055	\$0.070	080.02	\$0.095	\$0.110
Charter Discount/Sub/Mo.	20.035	\$0.040	\$0.045	20.050	\$0.055

## FOOTNOTES TO TLC RATE CARD

- (1) Rates shown above are applicable to systems that carry TLC on their basic tier. Tiering surcharges will be assessed to compensate for lost affiliate and ad revenue if certain system penetration levels are not achieved. Each system's net effective rate will be multiplied by factors shown in the following table:
- (2) Subscribers in newly launched cable systems through 1993 are free for a period of twelve months. Subscribers launched in 1994, 1995, and 1996 will be free until the end of that year.
- (3) Affiliate agrees to package TLC with a minimum of 5 other 24-hour, ad-supported cable networks carried in their entirety.

SYSTEM PENETRATION:	1992	1993	1994	<u> 1995</u>	1996
S5%-100%	1.00	1.00	1.00	1.00	1.00
S0%-S4%	1.00	1.00	1.00	1.12	1.12
75%-79%	1.00	1.00	1.12	1.27	1.27
70%-74%	1.00	1.12	1.27	1.43	1.43
65%—69%	1.12	1.27	1.43	1.61	1.61
60%-64%	1.27	1.43	1.61	1.83	1.83
55%-59%	1.43	1.61	1.83	2.10	2.10
50%-54%	1.61	1.83	2.10	2.40	2.40
40%-49%	2.10	2.40	2.55	2.78	2.78
30%-39%	3.00	3.30	3.60	3.85	3.85
20 <b>%-29%</b>	4:40	5.00	5.40	5.80	5.80
10%-19 <b>%</b>	8.33	9.00	9.66	10.33	10.33
5% <b>-</b> 9%	16.00	18.00	19.50	21.00	23.50
In the event system penetration is below 5%, the following minimum payments per basic subscriber will					
be charged	\$0.035	50.050	50.065	280.02	50.110

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## DISCOVERY COMMUNICATIONS Presentation to the

Federal Communications Commission

## **TABLE OF CONTENTS**

I. Ove	erview	p. 1
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- II. Importance of Volume p. 4
- III. Affiliate Rate Card History p. 9
- IV. Rate Regulation p. 22
- V. Recap p. 31
- VI. Proposed Solutions p. 34
- VII. General Information on p. 37
  The Discovery Channel &
  The Learning Channel

## **OVERVIEW:**

# THE DISCOVERY CHANNEL

AND

THE LEARNING CHANNEL

## DISCOVERY AND LEARNING

- "Edutainment"
- Films and Documentaries that Educate and Entertain
- Using Television to Educate,
   Inspire & Broaden People's
   Perspectives

## THE DISCOVERY CHANNEL: 60 MILLION HOMES

Desimantarias on nativa the environment esianes 0

## IMPORTANCE OF VOLUME

## WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES:

- AD REVENUE VARIES IN DIRECT PROPORTION TO THE NUMBER OF VIEWERS.
- EACH AD BUY PROMISES A SPECIFIC NUMBER OF VIEWERS.
- THE NUMBER OF VIEWERS IS DERIVED FROM 2 SOURCES:
  - COVERAGE: TOTAL NUMBER OF HOMES THAT CAN RECEIVE YOUR
     SERVICE
  - RATING: THE PERCENT THAT ACTUALLY WATCH
- THE MORE SUBSCRIBERS WHO CAN RECEIVE YOUR SERVICE, THE MORE POTENTIAL VIEWERS (ASSUMING YOU CAN ENTICE THE SAME PERCENTAGE TO WATCH):
  - 20M SUBS X 1 RATING = 200,000 VIEWERS
  - 60M SUBS X 1 RATING = 590,000 VIEWERS

## WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES CONT...

## A CURRENT "REAL WORLD" EXAMPLE:

TLC: 20M SUBS X .2 RATING = 40,000 VIEWERS

TDC: 60M SUBS X .6 RATING = 360,000 VIEWERS

## IMPACT ON AD REVENUE OF LOWER SUBS AND LOWER RATINGS IS SUBSTANTIAL:

TLC AD REVENUE PER VIEWER = \$150

\$150 X 40,000 VIEWERS = \$6 MILLION

**AVERAGE UNIT RATE: \$60** 

**TDC AD REVENUE PER VIEWER = \$266** 

\$266 X 360,000 VIEWERS = \$96 MILLION

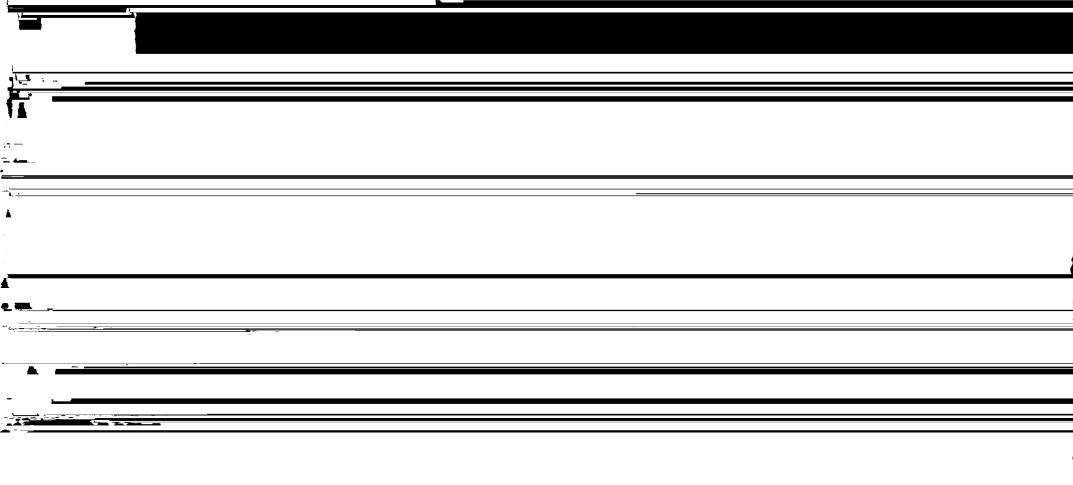
**AVERAGE UNIT RATE \$750** 

## AND AD SALES REVENUE CONNECTION BETWEEN SUBSCRIBER NUMBERS THE CRUCIAL

## **OUR OPERATING PHILOSOPHY**

Because two things determine Ad revenue, total homes

 Who can require and the percent who actually



## AFFILIATE RATE HISTORY CARD

## AFFILIATE RATE CARD HISTORY

## 1986

- WE HAD 7 MILLION SUBS
- ALL FREE, NO LICENSE FEES, NO AFFILIATE REVENUE STREAM
- NO AD SALES, TOO SMALL TO BE METERED BY NIELSEN
- TRANSLATE LOSING A LOT OF MONEY
- NO PROSPECT OF A FUTURE VIABLE BUSINESS WITHOUT AFFILIATE REVENUE AND AD REVENUE
- WE HAD TO INCENT DISTRIBUTION TO ACHIEVE BOTH AD AND AFFILIATE REVENUE

## **OUR INITIAL STRATEGY:**

ANYONE WHO RIPPED UP A FREE AGREEMENT AND PROMISED TO CARRY OUR SERVICE WAS GIVEN LOWER FUTURE RATES OVER A PERIOD OF YEARS.

TO QUALIFY, AFFILIATES HAD TO TEAR UP FREE
AGREEMENTS AND SIGN UP AS A "CHARTER AFFILIATE"
BY DECEMBER 1987, BEING A CHARTER AFFILIATE GAVE YOU:

- **LOW RATES IN THE FUTURE**
- SMALL VOLUME DISCOUNTS TO "DRIVE" RAPID SYSTEM LAUNCHES.
- **ADVERTISING "REBATES" IF CARRIAGE BENCHMARKS WERE MET**

## DISCOVERY CHARTER DISCOUNT RATE CARD

	1992	1993	1994	1995	1996
Up to 99,999 Plus	11.0¢	13.0¢	15.0¢	17.0¢	19.5¢
100,000 to 199,999 Plus	10.5¢	12.5¢	14.5¢	16.5¢	19.0¢
200,000 to 399,999 Plus	10.0¢	12.0¢	14.0¢	16.0¢	18.5¢
400,000 to 799,999 Plus	9.5¢	11.5¢	13.5¢	15.5¢	18.0¢
800,000 to 1,599,999 Plus	9.0¢	11.0¢	13.0¢	15.0¢	17.5¢
1,600,000 to 3,199,999 Plus	8.5¢	10.5¢	12.5¢	14.5¢	17.0¢
Above 3,200,000	8.0¢	10.0¢	12.0¢	14.0¢	16.5¢

## <u>Discovery Has 3 Categories of Affiliate Agreements</u> All Based on Historical Circumstances

Total number Discovery subs	Category	Explanation
46.6 M	Pre-Jan 1988- Charter Affiliates	Charter Discounts granted: chose to terminate free agreements in exchange for long term favorable rates. Includes cable & SMATV
6.8 M	Post-Jan 1988- Noncharter & New Affiliates	Chose <u>NOT</u> to terminate free agreements in exchange for long term favorable rates. Includes cable, SMATV & MMDS
.8 M	TVRO	Did not pay us until we scrambled in Sept 1990

## THE "NONCHARTER" & NEW AFFILIATE RATE CARD

## 1988-1993:

As "free" agreements expired for those affiliates who did not take advantage of the 1987 offer, a new "higher priced" rate card became effective. Key features of this rate card (shown on the next page) are:

- a higher top of rate card than that offered in 1987
- discounts based on volume in order to "drive" rapid system "launches"
- no ad sales "rebate"

## DISCOVERY "NONCHARTER" & NEW AFFILIATE RATE CARD

FOR EA	١C	H AFFILIAT	E	FEE PER TD	C SUBSCRIBER P	ER MONTH
TDC	Su	bscriber		1993	1994	1995
0	-	999	Plus	23.0¢	24.0¢	25. <b>0</b> ¢
1,000	-	4,999	Plus	22.0¢	23.0¢	24.0¢
5,000	_	9,999	Plus	21.0¢	22.0¢	23.0¢
10,000	-	19,999	Plus	20.0¢	21.0¢	22.0¢
20,000	-	29,999	Plus	19.0¢	20.0¢	21.0¢
30,000	-	39,999	Plus	18.0¢	19.0¢	20.0¢
40,000		49,999	Plus	17.0¢	18.0¢	19.0¢
50,000	-	99,999	Plus	16.5¢	17.5¢	18.5¢
100,000	-	199,999	Plus	16.0¢	17.0¢	18.0¢
200,000	-	399,999	Plus	15.5¢	16.5¢	17.5¢
400,000	_	799,999	Plus	15.0¢	16.0¢	17.0¢
800,000	_	1,599,999	Plus	14.5¢	15.5¢	16.5¢
1,600,000	+		Plus	14.0¢	15.0¢	16.0¢

## DISCOVERY RATE CARD OPERATING PRINCIPLES

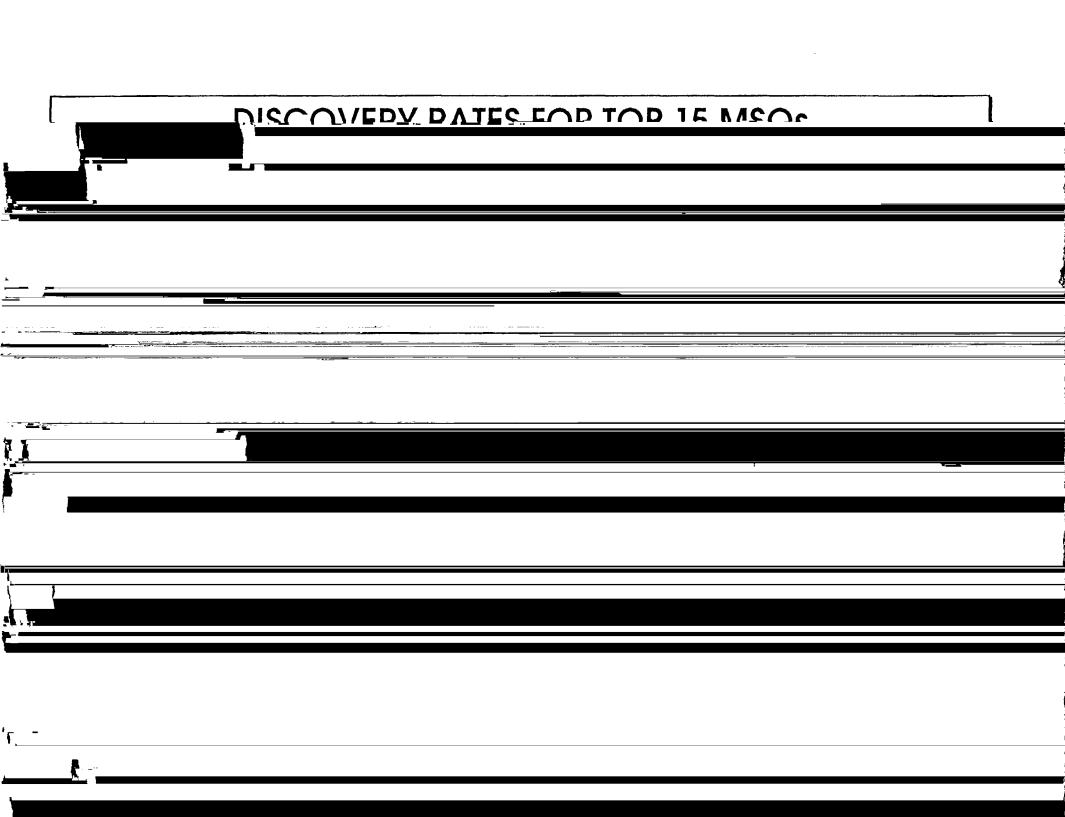
. FAIRNESS ACROSS ALL CABLE MSO'S AND SMATV/MMDS OPERATORS IS OUR CARDINAL RULE

. MUST BE ABLE TO "LOOK EVERYONE IN THE EYE"

. VOLUME IS FAIR BECAUSE IT DIRECTLY DETERMINES AD REVENUE

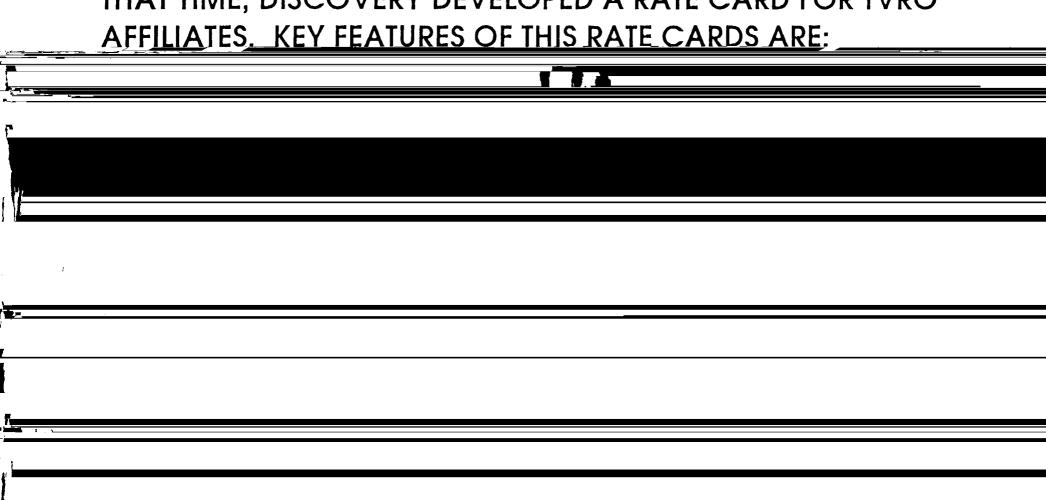
## DISCOVERY DOES NOT FAVOR ITS OWNERS BECAUSE WE CANNOT SURVIVE IF WE ONLY HAVE THEIR SUBSCRIBERS

- Owners pay on same rate card as everyone else
- Many MSOs pay less than Cox and Newhouse
- No exclusivity agreements in their territories (or anywhere)
- No extra marketing
- Discovery licensed alternate technology (except TVROs) at the same rate card as cable operators



## THE TVRO RATE CARD:

IN ORDER TO RESPOND TO REQUESTS FROM TVRO AFFILIATES, THE DISCOVERY CHANNEL "SCRAMBLED" ITS SERVICE. AT THAT TIME, DISCOVERY DEVELOPED A RATE CARD FOR TVRO AFFILIATES. KEY FEATURES OF THIS RATE CARDS ARE:



## DISCOVERY'S PENETRATION BY TECHNOLOGY

CATEGORY	<u>UNIVERSE</u>	12/92 DSC SUBS	<u>%</u>
CABLE	62,000K	59,000K	95%
SMATV	830K	553K	66% -30%
MMDS	282K	232K	82%
PAYING TVRO	1032K	832K	81%
TOTAL ALTERNATE TECHNOLOGIES	2144K	1617K	75%